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RUEHBY/AMEMBASSY CANBERRA 2210  
RUEHKO/AMEMBASSY TOKYO 1698  
RUEHWL/AMEMBASSY WELLINGTON 2444  
RUEHNE/AMEMBASSY NEW DELHI 1679  
RUEHHK/AMCONSUL HONG KONG 2517  
RUEHBD/AMCONSUL PERTH 0652  
RHHJJPI/USPACOM HONOLULU HI  
RHEHNSC/NSC WASHDC  
RUEAIIA/CIA WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 JAKARTA 000589

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DEPT FOR EAP, T, PM, ISN, EAP/MTS, EAP/MLS, EAP/RSP  
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TAGS: [PGOV](#) [PREL](#) [EIND](#) [KCOR](#) [ID](#)  
SUBJECT: DEFENSE REFORM -- TRYING TO GET THE MILITARY OUT  
OF BUSINESS

REF: JAKARTA 0084 AND PREVIOUS

Classified By: Pol/C Joseph Legend Novak, reasons 1.4(b+d).

¶1. (C) SUMMARY: The head of the new GOI team mandated to wind up the myriad business activities of the Indonesian armed forces (TNI) is optimistic. He plans to move forward with plans to sell off all TNI businesses and shut down illegal operations as well, adding that he thinks these steps will not seriously impact the TNI budget. If successful, this program would bolster confidence in the TNI reform process. Although there is ostensible high-level political support for reform in this area, it will be a very difficult process, involving conflict and negotiation with entrenched vested interests. END SUMMARY.

#### MOVING FORWARD WITH DEFENSE REFORM

¶2. (C) The defense reform effort is showing signs of life. POL Regional Security Chief and USAID Deputy Director met with Erry Riyana Hardjapamekas, the (civilian) head of the newly created team that is expected to complete the process of removing the TNI from business (bio material is included in paras 10-11). Last year, the TNI completed its inventory of its business activities and forwarded the list of 1,520 such operations to President Yudhoyono for action (reftel). Hardjapamekas' job will be to effect the transfer, which is mandated by Law No. 34/2004 on the Indonesian Armed Forces (TNI). In moving forward, Hardjapamekas said he had the full support of Defense Minister Sudarsono.

SELL IT ALL

¶3. (C) Hardjapamekas' bottom line is his intention to transfer not just the few major enterprises but every business operation that is not clearly of a charitable or cooperative nature. It is better to get rid of everything at once, he feels, rather than having to come back to the issue again in the future. He wants to sell most of the businesses directly to the private sector, although state-owned enterprises could also purchase those which made economic sense. He says an auction is not mandatory.

¶4. (C) This agenda exceeds the recommendations of the National Team's predecessor, the Supervisory Team for Transforming TNI Businesses, created in 2005. That team in 2006 recommended the creation of a new government agency to which enterprises with significant commercial operations would be transferred. These recommendations were announced by Deputy Defense Minister Sjafrie Sjamsoeddin in February ¶2006. Official statements subsequently whittled down the number of businesses slated for probable transfer to less than a dozen. The rest were either small, unprofitable, belonged to TNI foundations for pension and charitable purposes, or were nonprofit cooperatives solely for soldiers' welfare (reftel).

#### GET RID OF ILLEGAL OPERATIONS, TOO

¶5. (C) Moreover, Hardjapamekas also wants to tackle illegal business activities: illegal fishing; logging; use of TNI assets; prostitution; gambling and so forth. He sets out several reasons for his focus on this area:

- First, the illegal business operations are more significant, both in value and in their moral impact on the military.
- Second, this sector receives greater attention by critics; Hardjapamekas mentioned Human Rights Watch in particular.
- Third, and perhaps most important, Finance Minister Sri Mulyani reportedly has indicated she will move to put the TNI "on budget"--i.e., funded at adequate levels--only once the illegal businesses are out of the picture.
- Fourth, although there is some illegal business activity at the central command, it is spread throughout the TNI's

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far-flung territorial administration. Hardjapamekas sees the territorial administration as a legacy of the past which needs to disappear in order for a modern military to emerge. Curtailing the illegal lifeline would hasten the transition, he believes. This would go hand-in-hand with troop reductions to pare the TNI down to a leaner force commensurate with Indonesia's defense needs.

¶6. (C) There is extensive support within the TNI for such a move, according to Hardjapamekas. Most of the illegal activities are in the hands of senior officers, he says, and the more junior officers and rank-and-file soldiers either are not able to benefit from it or reject it in principle due to their exposure to democratic values. An order from the TNI commander (Panglima) could set this process in motion, and the military police could ensure execution by subordinate commanders. Hardjapamekas has not approached the Panglima on this issue yet, however.

#### MINOR IMPACT ON BUDGET?

¶7. (C) Hardjapamekas maintains that neither the legal nor the illegal activities represents a significant share of income for the military and will therefore not set the TNI back very far in its effort to get on budget. Much of the revenue from such ventures goes directly to commanders, specific units or individual soldiers, he asserts, generally for personal enrichment. We note that analyses of the TNI's business operations, including by Human Rights Watch and the Brookings Institution/USINDO, have drawn a similar conclusion. The payoff, rather, will come in the form of an increasing focus on professional military skills throughout the organization.

#### TEAM AND MANDATE

¶8. (C) A decree formally creating Hardjapamekas' team is expected from President Yudhoyono in coming weeks, according to both Hardjapamekas and officials at the Indonesian Department of Defense. The team, which already exists informally, reportedly consists of civilian financial and

other experts, military officials and ministers. Defense Minister Sudarsono and Minister of State Properties Sofyan Djalil are members of the Supervisory Committee. The core working group includes two bank officials, one capital-markets observer, one young entrepreneur and one public relations manager. Peripherally, it will also likely include two or three generals. The first orders of business will include:

-- Appraisal of each business: Some businesses have been gutted, others may have inflated prices. Market values must be established as a prerequisite for sale. Hardjapamekas believes this can best be done by an independent appraiser, one which is internationally respected.

-- Legal recommendations: Given the multiple laws governing the TNI, businesses, foundations and so forth, a group of in-house or contracted legal experts will need to pull together the relevant laws and regulations and provide a legal way forward. This group would need to include experts on civil, criminal and constitutional law. Hardjapamekas plans to send the group's recommendations to the Supreme Court for approval.

PATH WON'T BE EASY

¶9. (C) Hardjapamekas will definitely be a figure to watch. Experienced in state-owned enterprises, well connected in both military and civilian financial circles, he is also imbued with reformist zeal and is excited by the challenge of accomplishing more than anyone expects. All that said, his path will be a tough one: his zeal could easily become mired in the familiar maze of bureaucracy and corruption that besets any effort at reform in Indonesia. But success--even

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if partial--could impart new momentum to the TNI reform process. Mission's USAID office is considering how we might provide assistance to support the team's work.

BIO NOTES

¶10. (U) With decades of business and government experience and strong reformist credentials, Hardjapamekas would seem to be the right choice as team chairman. He was one of the first five commissioners to serve on the Anti-Corruption Commission (KPK) upon its creation in 2003 and completed his four-year term in 2007. The KPK has been successful in prosecuting high-profile corruption cases.

¶11. (U) Born in Bandung, West Java, on September 5, 1949, Hardjapamekas holds a BA in Economics, with a major in Accounting, from Padjadjaran University, Bandung, in 1978. he attended the Executive Education Program on "Corporate Financial Management" at Harvard Business School in 1992. He was President Director of PT Timak Tbk 1994-2002 after many years with the company. He was President Commissioner of the Jakarta Stock Exchange 1998-2001 and Commissioner of the exchange 1996-1998. In recognition of his service in developing the mining sector in Indonesia, President Yudhoyono awarded him the "Satyalancana Pembangunan" medal in June 1996 and the "Bintang Jasa Utama" medal in August 1997.

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